

HANDLING STRATEGY: Removal of Australian Rebate on Private Health Insurance from Lifetime Health Cover Loadings

Outline:

- Lifetime Health Cover loadings are currently applied as an add-on to premiums at a rate of 2% for every year that an individual takes out private health insurance after the age of 31 up to a maximum of 70%. The rebate is currently payable on the entire cost of a person's policy, including any LHC loading payable.
- The intention of this proposal is to realign arrangements in the Private Health Insurance Act 2007 (the Act) so that all recipients of the income-tested rebate receive a benefit related to their premium, excluding any LHC loading.
- This proposal could commence on 1 July 2013 subject to the passage of legislation.
- This is expected to result in savings of \$398.6 million over five years.

Mechanism

- This measure will require amendments to the Private Health Insurance Act 2007 and the Income Tax Assessment Act 1936.
- Formal consultation with insurers will occur immediately following the announcement at MYEFO;
- Government communication will occur during the first half of 2013 (a formal communication campaign is not proposed; existing vehicles will be used such as the Health and Ageing and Private Health Insurance Ombudsman websites, insurer communications and the LHC mailout)

Rationale:

- Removing the rebate from the LHC loading will contribute to ensuring the longer term sustainability of the rebate. It also increases the incentive for people to take out private health insurance by 31 years of age and to maintain their membership.

Who will be affected:

Consumers –

- According to Private Health Insurance Administration Council (PHIAC) data as at 30 June 2012, there were 1,052,994 individuals who were paying a LHC loading on top of their premium. The average LHC loading payable is 24 per cent.
- The average financial impact of this proposal on impacted consumers is estimated to be approximately \$116 per year.
- It is not possible to determine the exact age of a person based on the amount of LHC loading they pay. However, given that a loading is removed after 10 continuous years of hospital policy membership, it can be assumed that someone with a 70 per cent (maximum) loading is aged 65 or over. There are currently 33,805 people with a 70 per cent loading.

Private Health Insurers –

- This proposal will reduce the rebate payable for consumers subject to therefore increasing the out of pocket expense for private health insurance.

Handling:

- To be announced announcement in the 2012-13 Mid-Year Economic Fiscal Outlook (MYEFO).
- Early consultation with the Private Health Insurers and the sector by DoHA would help build support for this measure.

Third Party support

- Some consumers are likely to be supportive of a proposal which removes support for persons who have not taken out private health insurance in a timely manner.
- Insurers are likely to support a proposal that increases the incentive for people to take out and maintain private health insurance.

Third Party opposition

- Some consumers and insurers may argue that this proposal may cause potential policyholders with a LHC liability not to take out private health insurance. It may be argued that this will particularly affect those on low incomes who struggle to afford PHI.
- Private health insurance is already a complex area for consumers to understand. These changes will potentially add to complexity, particularly in conjunction with the recent introduction of income testing of the Australian Government Rebate on Private Health Insurance.

Key lines:

- The rebate is a substantial and growing component of government health expenditure.
- The successful implementation of this proposal will help the Government achieve its commitment to sustainability of the rebate and contribute towards the surplus.
- Few drop-outs are anticipated by consumers given they see enough value in the product to purchase it already with a loading, and the overall cost increases will be relatively small spread over the course of a year.
- The change reinforces the incentive of Lifetime Health Cover and encourages people to take out and maintain private health insurance.